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BEFORE THE ARIZONA CORPORATION COMMISSION

2002 JUN 20 A 4: 11

IN THE MATTER OF THE APPLICATION)
OF DUKE ENERGY ARLINGTON VALLEY,)
LLC IN CONFORMANCE WITH THE)
REQUIREMENTS OF ARIZONA REVISED)
STATUTES §40-360.03 AND §40-360.06)
FOR A CERTIFICATE OF)
ENVIRONMENTAL COMPATIBILITY)
AUTHORIZING THE CONSTRUCTION)
OF A NATURAL GAS-FIRED, COMBINED)
CYCLE GENERATING FACILITY)
(ARLINGTON VALLEY ENERGY FACILITY)
II) NEAR ARLINGTON IN MARICOPA)
COUNTY, ARIZONA)

AZ CORP COMMISSION
DOCUMENT CONTROL

) Docket No. L-00000P-01-0117

) Case No: 0117

Arizona Corporation Commission

DOCKETED

JUN 20 2002

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REQUEST FOR EXTENSION

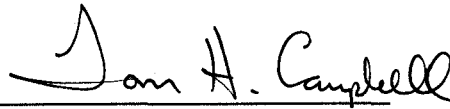
On January 15, 2002, the Arizona Corporation Commission granted Duke Energy Arlington Valley, LLC ("Duke") a Certificate of Environmental Compatibility. That Decision was later amended by Decision No. 64495 and Decision No. 64717. A copy of the Amended Decision is attached as Exhibit A. Condition #15 of the Amended Decision requires Duke to convene a workshop in early 2002 to address gas transportation reliability and capacity issues. A report resulting from this workshop is to be filed with the Commission in 2002.

In consultation with the Arizona Corporation Commission Utilities Division Staff ("Staff"), Duke prepared a proposed agenda and participant list for the gas workshop. Copies of the agenda and participant list are attached as Exhibits B and C. Currently, the Federal Energy Regulatory Commission ("FERC") is conducting proceedings regarding gas transportation issues. Duke and Staff decided that convening a workshop in the Fall of 2002, rather than in early 2002, would be more valuable because FERC may issue decisions and regulations with

respect to gas transportation issues that should be taken into account in the Arizona gas workshop. As a result, Duke respectfully requests that the Hearing Division issue a procedural order granting Duke an extension until October 31 within which to convene the gas transportation workshop. Even with this extension, the parties will have 60 days to prepare and file a report as contemplated by the Amended Decision.

RESPECTFULLY SUBMITTED this 20th day of June, 2002.

LEWIS AND ROCA LLP



Thomas H. Campbell
Michael Denby
40 N. Central Avenue
Phoenix, Arizona 85004

Attorneys for Duke Energy Arlington Valley, LLC

ORIGINAL and 10 copies
of the foregoing filed this
20th day of June, 2002, with:

The Arizona Corporation Commission
Utilities Division – Docket Control
1200 W. Washington Street
Phoenix, Arizona 85007

COPY of the foregoing hand delivered
this 20th day of June, 2002, to:

Lyn Farmer, Chief Administrative Law Judge
Hearing Division
Arizona Corporation Commission
1200 W. Washington Street
Phoenix, Arizona 85007

Arlington Valley Energy Facility II Project
Docket No. L- 00000P-01-0117

Janice M. Alward
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1275 W. Washington Street
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COPY of the foregoing mailed
this 20th day of June, 2002, to:

Neil A.M. Peters
P.O. Box 57
Arlington, Arizona 85322

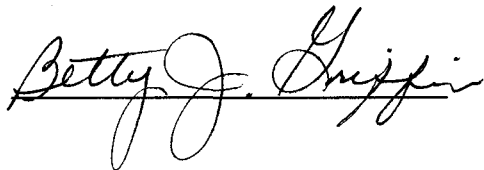
A handwritten signature in cursive script, reading "Betty J. Shippin", is written over a horizontal line.

EXHIBIT A

BEFORE THE ARIZONA CORPORATION COMMISSION

WILLIAM A. MUNDELL
Chairman
JIM IRVIN
Commissioner
MARC SPITZER
Commissioner

Arizona Corporation Commission

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IN THE MATTER OF THE APPLICATION OF DUKE ENERGY OF ARLINGTON VALLEY L.L.C. IN CONFORMANCE WITH THE REQUIREMENTS OF ARIZONA REVISED STATUTES §40-360.03 AND §40-360.06 FOR A CERTIFICATE OF ENVIRONMENTAL COMPATIBILITY AUTHORIZING THE CONSTRUCTION OF A NATURAL GAS-FIRED, COMBINED CYCLE GENERATING FACILITY (ARLINGTON VALLEY ENERGY FACILITY II) NEAR ARLINGTON IN MARICOPA COUNTY, ARIZONA

CASE NO. 117

Docket No. L-00000P-01-0117

AMENDED DECISION NO. 64495

Decision No. 64717

Arizona Corporation Commission ("Commission") Decision No. 64357 granted Duke Energy Arlington Valley L.L.C. ("Duke") a Certificate of Environmental Compatibility ("CEC") for its Arlington Valley Energy Facility II with certain conditions. Duke timely filed an application for rehearing of Decision No. 64357, which was granted by the Commission. Upon rehearing and reconsideration of this matter, the Commission voted to modify Decision No. 64337 by changing Condition Numbers 20 and 22, and deleting Condition Number 21. However, the written order on rehearing, Decision No. 64495, inadvertently omitted express language deleting Condition Number 21. Duke has requested a technical correction of Decision No. 64495 for clarification purposes. This Amended Decision No. 64495 clarifies the conditions under which the Commission granted the CEC, and expressly finds and concludes that these conditions serve as findings on the matters raised during the course of proceedings. The Commission also adds a new condition agreed to by Duke to the CEC, Condition Number 26, concerning monitoring of subsidence in the Palo Verde area.

1 The Commission hereby amends Decision No. 64495 by restating the conditions under which
2 the Commission approves the CEC, deleting any condition no longer applicable, and renumbering the
3 CEC conditions as follows:

4 1. The Applicant will comply with all existing applicable air and waste pollution control
5 standards and regulations, and with all existing applicable ordinances, master plans and regulations of
6 the State of Arizona, Maricopa County, the United States, and any other governmental entities having
7 jurisdiction, including but not limited to the following:

- 8 a. all zoning stipulations and conditions, including but not limited to the
9 landscaping and dust control requirements and/or approvals;
- 10 b. all applicable air quality control standards, approvals, permit conditions and
11 requirements of the Maricopa County Air Quality Control District and/or other
12 State or Federal agencies having jurisdiction, and the Applicant shall install
13 and operate selective catalytic reduction and catalytic oxidation technology at
14 the level determined by the Maricopa County Air Quality Control District and
15 approved by EPA Region IX. The Applicant shall operate its project so as to
16 meet a 2.5 ppm NOx emissions level, within the parameters established in the
Title V and PSD air quality permits issued by the Maricopa County Air
Quality Control District for the plant. If technically and economically feasible,
Applicant shall install and operate catalytic oxidation technology that will
produce a carbon monoxide (CO) and volatile organic compound (VOC)
emission rate equivalent to California's current best available control
technology (BACT) standard.
- 17 c. all applicable water use requirements of the Arizona Department of Water
18 Resources, and Phoenix Active Management Area, including but not limited to
development plan approval, certificate of irrigation grandfathered rights, and
applicable management plans;
- 19 d. all applicable water quality and disposal requirements of the Arizona
20 Department of Environmental Quality regulations;
- 21 e. all applicable noise control standards, and during normal operations the Project
22 shall not exceed applicable (i) HUD or EPA residential noise guidelines or (ii)
OSHA worker safety noise standards;
- 23 f. all applicable regulations and permits governing storage and handling of
chemicals.

24 2. This authorization to construction AVEF II will expire upon five (5) years from the
25 date this Certificate is approved by the Arizona Corporation Commission ("Commission") unless
26 construction is completed to the point that the facility is capable of operating at its rated capacity;
27 provided, however, that prior to such expiration Applicant or its assignee may request that the
28 Commission extend this time limitation.

1 3. Applicant will submit to the Commission an interconnection agreement with the
2 transmission providers with whom it is interconnecting before commencing commercial operation.

3 4. Applicant or its affiliate company will become a member of the Western Systems
4 Coordinating Council ("WSCC") (or its successor), and file a copy of its WSCC Reliability Criteria
5 Agreement or Reliability Management System (RMS) Generator Agreement with the Commission.

6 5. Applicant will use reasonable efforts to become a member of the Southwest Reserve
7 Sharing Group (or its successor) if commercially reasonable and if involved in the selling of
8 wholesale power to a commercially identifiable load, thereby making Applicant's units available for
9 reserve sharing purposes, subject to competitive pricing.

10 6. Subject to the Federal Energy Regulatory Commission rules and tariffs and WSCC
11 RMS requirements, Applicant shall commit to offer as ancillary services a total 7% of its total plant
12 capacity to the local Control Area with which it is interconnected and to Arizona's regional ancillary
13 service market once a Regional Transmission Organization is operational, and until such time that a
14 Regional Transmission Organization is operational, to a regional reserve sharing pool.

15 7. Applicant shall make commercially reasonable efforts to execute wholesale power
16 sales to credit worthy Arizona load-serving entities serving Arizona load and to marketers providing
17 service to those Arizona load serving entities.

18 8. The Applicant shall file deed restrictions limiting the use of its property within a .50
19 mile radius of the generation facility (AVEF II) to non-residential uses so long as AVEF II is
20 operational.

21 9. From the period beginning 30 days from the date a Certificate of Environmental
22 Compatibility is approved by the Commission, continuing until the generation facility's construction
23 has been completed, Applicant, subject to applicable county regulations, shall erect and maintain at
24 the project site a sign of not less than 15 feet by 10 feet dimensions or of a size at the maximum
25 dimensions for such signs permitted by the local governmental authority, advising:

26 a. that the site has been approved for the construction of a 600 megawatt
27 generating facility

28 b. the expected date of completion of the facility

1 c. if the facility is not timely completed pursuant to the Certificate of
2 Environmental Compatibility, the Applicant would have to seek an extension
3 of the certificate or again pursue approval from the Power Plant Line Siting
Committee before it could construct the project. This would afford persons

4 residing in the project's vicinity an opportunity to express their viewpoint
5 through public comment and/or by formally intervening in the application
approval process.

6 10. Where feasible, Applicant shall make commercially reasonable efforts to invite, and
7 shall give full consideration to, bids from qualified local and in-state construction subcontractors for
8 construction of the Project.

9 11. The Applicant shall operate its evaporation pond so that any salt residue contained
10 therein shall not cause damage to crops grown on fields adjacent to the Project site.

11 12. Applicant shall use a zero discharge system for its cooling water, subject to existing
12 regulatory requirements.

13 13. Applicant shall use low profile structures, moderate stacks, neutral colors, compatible
14 landscaping and low intensity directed lighting for the plant. Applicant shall use non-reflective
15 conductors and towers.

16 14. Applicant shall implement a Land Management Plan that includes:

- 17 a. Installation of a professionally designed landscape plan for the entrance of the
18 facility and along both sides of Elliot Road.
- 19 b. A comprehensive revegetation program that will restore a large portion of the
property with plant communities similar to the adjacent desert lands.
- 20 c. A partnership with The Arizona Game and Fish Department to provide
21 enhanced wildlife habitat on lands that border Centennial Wash.
- 22 d. An annual report (for six years) submitted to the Arizona Corporation
Commission setting forth the status of the Land Management Plan.
- 23 e. Including Mr. Neil A.M. Peters, intervenor, and other interested parties, in
24 implementation discussions and shall keep them informed of all aspects of the
land management plan.

25 15. Applicant will convene a workshop in early 2002 to address gas transportation
26 reliability and capacity issues, both short term and long term. Participants will include other Arizona
27 gas-fired power plant owners and wholesale gas transportation providers. The initial workshop will
28 identify issues and establish a timeline for producing a report to the Arizona Corporation

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1 Commission in 2002. This topic will be reviewed in subsequent workshops convened by the
2 Applicant in 2003 and 2004. These workshops will allow for public participation.

3 16. Once construction commences on the Project, Applicant will pay up to \$11,000,000
4 for the upgrades to the North Gila and Kyrene transmission lines set forth in the Report on the
5 Preliminary Study for the Palo Verde Interconnection prepared for the Palo Verde Interconnectors
6 and Western Arizona Transmission System Task Force, dated February 20, 2001 (the "WATS
7 Study") at pages 29-31. Applicant will contact the transmission owners of the upgraded lines to
8 determine the earliest opportunity for the transmission lines to be upgraded and Applicant will use
9 commercially reasonable efforts to assure that such upgrades are completed before AVEF II is in
10 commercial operation. Nothing in this paragraph is intended to preempt any Federal Energy
11 Regulatory commission (FERC) order or regulation concerning either interconnection or transmission
12 service, nor grants Applicant any priority in either interconnection or transmission service, nor
13 guarantees that Applicant will receive transmission service.

14 17. Applicant shall participate in good faith in state and regional transmission study
15 forums, such as the Central Arizona Transmission Study, to terminate a second transmission line out
16 of the Arlington Valley Energy Facility that serves the transmission system grid needs to deliver
17 power throughout the Western Systems Coordinating Council grid in a reliable manner. Applicant
18 shall take all commercially reasonable efforts to ensure that such transmission line shall be timely
19 constructed in accordance with the needs of the integrated transmission grid, although Applicant is
20 not required by this Decision to build, finance, operate or own such transmission line.

21 18. Applicant shall construct a 500kV switchyard of ring bus design and capable of
22 accommodating four terminals and upgradable to a breaker and one-half design if so required by local
23 regional reliability criteria. Two of the terminals will be used to connect to the phases of the
24 Applicant's project designated as AVEF I and AVEF II each consisting of 600 MW of generation.
25 The remaining two terminals will provide for connection to the transmission grid, i.e., one for the
26 transmission connection currently under construction to the Hassayampa switchyard associated with
27 AVEF I and one for a future transmission line to be terminated elsewhere. The switchyard shall be of
28 conventional open air design consisting of high voltage power circuit breakers, disconnect switches,

1 grounding switches, potential transformers, surge arrestors, steel structures and protective relaying.
2 Nothing in this order precludes Applicant from seeking reimbursement for these switchyard costs
3 from future users of the switchyard. Applicant shall file a late-filed exhibit describing the
4 switchyard, including its location and a diagram of the facility.

5 19. Applicant's Project shall be designed and constructed to accommodate two
6 transmission lines emanating from its power plant's transmission switchyard and interconnecting
7 with the existing transmission system. One of these will interconnect with the Hassayampa 500 kV
8 switchyard. This plant interconnection must satisfy the single contingency outage criterion (N-1)
9 after the second transmission line interconnecting with the transmission grid is complete, without
10 reliance on remedial action such as generator unit tripping or load shedding.

11 20. The Applicant shall participate in the Central Arizona Water Conservation District's
12 Agua Fria Recharge Project, in cooperation with the Arizona Water Banking Authority. The
13 Applicant shall recharge 3,900 acre-feet/year of water or an amount equal to its actual water usage,
14 whichever is greater, through the recharge project for the useful life of the AVEF II facility, subject
15 only to availability of water supplies. If the Applicant earns long-term storage credits from its
16 participation in the Agua Fria Recharge Project, it shall not reclaim those credits in any manner
17 whatsoever.

18 21. The Arlington Valley Energy Facility II shall be required to meet the Lowest
19 Achievable Emission Rate ("LAER") for Carbon Monoxide (CO), Nitrogen Oxides (NOx), Volatile
20 Organic Compounds (VOCs), and Particulate Matter less than ten microns in aerodynamic diameter
21 (PM₁₀). The Applicant shall be required to submit an air quality permit application requesting this
22 LAER to the Maricopa County Environmental Services Department. LAER shall be determined by
23 the Maricopa County Environmental Services Department.

24 22. If during the first twenty years of commercial operation of the AVEF II facility (a) an
25 air quality permit is issued in Environmental Protection Agency (EPA) Region IX requiring a
26 combined-cycle combustion turbine generator located in an area having the same designation at that
27 time (attainment or nonattainment) as the AVEF II facility site to control NOx emissions to a level
28 less than 2.5 ppm, and (b) the Commission or the Applicant has determined that use of the technology

10/10/17

1 required to comply with such lower standard would be economically feasible for the AVEF II
2 facility, then within twenty-four months of such determination, Applicant shall install and operate
3 control technology to control NOx emissions at the AVEF II facility to such lower standard.
4 Applicant shall not be required to install new control technology more than once every ten years.

5 23. The Applicant, its successors(s) or assignee(s) shall submit a self-certification letter
6 annually, identifying which conditions contained in the CEC as amended, have been met. Each letter
7 shall be submitted to the Utilities Division Director on August 1, beginning in 2002, describing
8 conditions which have been met as of June 30. Attached to each certification letter shall be
9 documentation explaining, in detail, how compliance with each condition was achieved. Copies of
10 each letter, along with the corresponding documentation, shall also be submitted to the Arizona
11 Attorney General and the Directors of the Arizona Department of Environmental Quality,
12 Department of Water Resources, and Department of Commerce Energy Office.

13 24. If the Applicant, its successor(s) or assignee(s) after notice and hearing, is found to
14 have failed to comply with any conditions herein, the Commission shall impose appropriate sanctions
15 up to and including the revocation of the authority to construct facilities granted by this Commission
16 Decision, which would result in the CEC being rendered null and void in its entirety.

17 25. The Commission is approving this CEC as a package of inter-related requirements and
18 conditions that must all remain in force in order to merit Commission approval. If the Applicant, its
19 successor(s) or assignee(s) pursue a legal challenge of any condition herein, the authority to construct
20 facilities granted by this Commission Decision shall be revoked and the Certificate rendered null and
21 void in its entirety without further order of the Commission.

22 26. The Applicant, in conjunction with the other power plant operators in the Palo Verde
23 area, the United States Department of the Interior U.S. Geological Survey, and the Arizona
24 Department of Water Resources, shall develop a monitoring program of monument inspection and
25 information gathering concerning subsidence in the Palo Verde area. The monitoring program shall
26 be administered and results reported as directed by the Arizona Department of Water Resources. The
27 Applicant shall also file any reports, including results from any ADWR study, with the Arizona
28 Corporation Commission and the United States Department of the Interior U.S. Geological Survey.

1 The Applicant will fund a pro rata portion of the monitoring program.

2 THE COMMISSION FINDS AND CONCLUDES as to the above conditions under which the
3 CEC is granted that: (1) the Arlington Valley Energy Facility II Project is in the public interest
4 because it aids the state in meeting the need for an adequate, economical and reliable supply of
5 electric power; (2) in balancing the need for the Arlington Valley Energy Facility II Project with its
6 effect on the environment and ecology of the state, the conditions placed on the CEC as modified by
7 the Commission, effectively minimize its impact on the environment and ecology of the state; (3) the
8 conditions placed on the CEC as modified by the Commission, resolve matters concerning the need
9 for the project and its impact on the environment and ecology of the state raised during the course of
10 proceedings before the Committee and the Commission, and as such, serve as the Committee's and
11 Commission's findings on the matters raised; and, (4) in light of these conditions, the balancing in
12 the public interest referred to by A.R.S. § 40-360.07(B) results in favor of granting the CEC as
13 modified by the Commission.

14 IT IS ORDERED that the Certificate of Environmental Compatibility issued to Duke Energy
15 Arlington Valley L.L.C. by the Arizona Power Plant and Line Siting Committee on January 15, 2002,
16 approved as modified by Commission Decision No. 64357, and further modified on rehearing by
17 Decision No. 64495, is hereby affirmed with the additional monitoring condition, by this Amended
18 Decision No. 64495.

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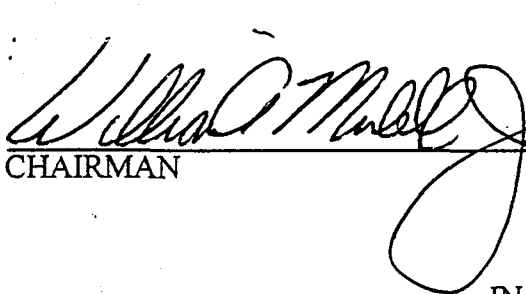
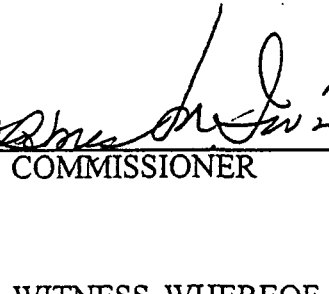
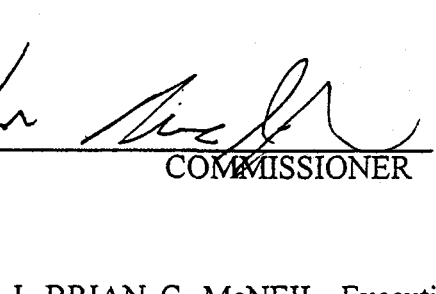
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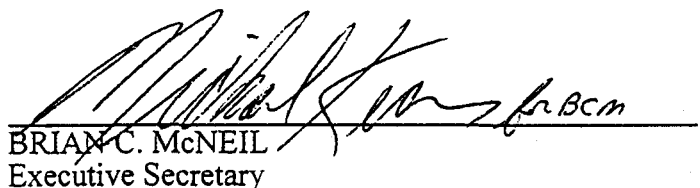
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IT IS FURTHER ORDERED that Amended Decision No. 64495, entered by the Commission to clarify its previous order and add a monitoring condition shall become effective immediately.

THE CEC ISSUED BY THE SITING COMMITTEE
IS INCORPORATED HEREIN AND IS
APPROVED AS AMENDED BY THIS ORDER OF THE
ARIZONA CORPORATION COMMISSION

  
CHAIRMAN COMMISSIONER COMMISSIONER

IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive Secretary of the Arizona Corporation Commission, have hereunto, set my hand and caused the official seal of the Commission to be affixed at the Capitol, in the City of Phoenix, this 12TH day of APRIL, 2002.


BRIAN C. McNEIL
Executive Secretary

DISSENT: _____

EXHIBIT B

**Agenda for Phoenix Gas Conference
May 16, 2002**

- **Define the purpose of this workshop**

The purpose of this workshop is to facilitate a discussion to address issues related to reliability and capacity of gas transportation serving the burgeoning power generation load in Arizona. Both short term and long term implications will be considered and discussed. The desired outcome of the workshop is to create a report to be shared with the Arizona Corporation Commission and other interested parties. The report shall summarize and draw conclusions based on the workshop's discussion related to gas transportation reliability and capacity in Arizona.

- **Pipeline overview and status of merchant project developments**

- **Major issues related to gas transportation reliability and capacity**

1. Reliability of existing gas lines
2. Operation and integrity of existing gas infrastructure
3. Redundancy of existing gas infrastructure
4. Adequacy of existing gas transportation capacity to serve future power plant growth

- **Proposed gas infrastructure improvements in Arizona and the surrounding region**

1. Pipelines
2. Storage

EXHIBIT C

Draft Invitation List for Gas Conference in Arizona:

1. Duke Energy
2. Pinnacle West / APS
3. Panda
4. PPL
5. Reliant
6. Sempra
7. NRG
8. Calpine
9. PG&E
10. SRP
11. Allegheny
12. Coral
13. South West Gas
14. El Paso Pipeline
15. Transwestern Pipeline
16. Copper Eagle Storage
17. Desert Crossing Storage
18. Red Lake Storage
19. Power-Up
20. SoCal Gas
21. North Baja Pipeline